

Message Text

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ACTION PM-04

INFO OCT-01 EA-07 ISO-00 L-03 AID-05 IGA-02 MC-02 SS-15
EB-07 OMB-01 TRSE-00 ACDA-07 CIAE-00 INR-07 NSAE-00
NSC-05 /066 W
-----071109Z 102018 /22

R 070955Z JAN 77
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 8602
INFO SECDEF
CINCPAC

C O N F I D E N T I A L JAKARTA 0345

CINCPAC ALSO FOR POLAD

E.O. 11652: GDS
TAGS: MASS, ID
SUBJECT: MORE FAVORABLE FMS CREDIT TERMS FOR INDONESIA

REF: (A) JAKARTA 0025 (DTG 030600Z JAN 77), (B) JAKARTA 0146
(DTG 050140Z JAN 77)

1. IT IS CLEAR FROM REFTELS THAT PRESIDENT SUHARTO AND
GOI MILITARY LEADERSHIP IN GENERAL ARE NOW PLACING INCREASED
IMPORTANCE ON IMPROVING TERMS OF FMS CREDIT IN FY 77 (TWO-YEAR
GRACE AND EIGHT-YEAR REPAYMENT PERIODS HAVE GENERALLY BEEN
REQUESTED). INDEED, FMS CREDIT TERMS SEEM TO HAVE BECOME FOR THE
INDONESIANS ONE OF THE CENTRAL ISSUES CURRENTLY AFFECTING OUR
BILATERAL RELATIONSHIP.

2. THERE ARE, OF COURSE, GOOD ECONOMIC REASONS FOR THE
EMPHASIS PLACED ON BETTERING CREDIT TERMS. INDONESIA'S
INTERNAL AND EXTERNAL CAPITAL RESOURCES CONTINUE TO BE
SCARCE IN RELATIONS TO DEVELOPMENT REQUIREMENTS AND THE
COUNTRY DEPENDS HEAVILY ON CONCESSIONARY ASSISTANCE FROM THE
MEMBERS OF THE IGGI AND OTHER SOURCES. (IT SHOULD ALSO BE
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NOTED THAT, ALTHOUGH THE GOI'S SECURITY CONCERNS HAVE
INCREASED OVER THE PAST YEAR, THE FY 77 BUDGET PRESENTED TO
THE PARLIAMENT THIS WEEK CONTINUES TO ALLOT LESS THAN THREE
PERCENT OF INVESTMENT FUNDS TO DEFENSE, IN KEEPING WITH THE
NATION'S OVERALL ECONOMIC DEVELOPMENT ORIENTATION.) BECAUSE
OF DEBT SERVICE PAYMENTS, THE NET INFLOW OF FOREIGN EXCHANGE
WILL DROP FROM NEARLY \$2 BILLION IN 1976 TO LESS THAN

\$250 MILLION IN 1979. EVEN ASSUMING CONTINUATION OF THE CURRENT LEVEL OF EARNINGS FROM OIL EXPORTS AND SIGNIFICANTLY GREATER DISCIPLINE IN SHORT-TERM BORROWINGS, INDONESIA'S DEBT SERVICE BURDEN IS EXPECTED TO APPROACH THE TRADITIONAL DANGER ZONE OF AROUND 20 PERCENT BY 1979/80. ALTHOUGH PERHAPS SMALL IN RELATION TO THE OVERALL DEBT PROBLEM, AND IMPROVEMENT IN FMS CREDIT TERMS WOULD COME AT A MOMENT WHEN RELIEF IS MOST NEEDED.

3. THERE ARE EQUALLY IMPORTANT POLITICAL CONSIDERATIONS UNDERLYING THE CURRENT GOI INTEREST IN THIS ISSUE. INDONESIANS TEND TO ASSOCIATE THE LIBERALITY OF FMS CREDIT TERMS WITH THE DEGREE OF USG INTEREST IN INDONESIA'S SECURITY. FAILURE TO RESPOND IN TIMELY AND FORTHCOMING FASHION TO SIGNALS INDONESIANS HAVE GIVEN US IS LIKELY THEREFORE TO BE MISREAD IN HIGHEST POLICY-MAKING CIRCLES HERE.

4. WE HOPE THAT WASHINGTON AGENCIES WILL AT THIS TIME GIVE FAVORABLE CONSIDERATION TO GRANTING INDONESIA LONGER REPAYMENT PERIOD FOR FY 77 CREDIT. AS SOON AFTER JANUARY 20 AS POSSIBLE (WE SHOULD NOT RPT NOT AWAIT ACTUAL INDONESIA REQUEST FOR FINANCING AGREEMENT), WE RECOMMEND THAT INDONESIANS BE INFORMALLY TOLD THAT US WILL AGREE TO IMPROVED CONDITION FOR FINANCING AGREEMENTS UNDER FY 77 FMS APPROPRIATION. THIS GESTURE WOULD, WE BELIEVE, DO MUCH TO ALLAY INCREASINGLY EVIDENT GOI CONCERN THAT NEW ADMINISTRATION IS PLACING SOUTHEAST ASIA IN GENERAL AND INDONESIA IN PARTICULAR FAR DOWN ON THE LIST OF ITS PRIORITIES.

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5. STATE 003181 JUST RECEIVED. AS NOTED PARAGRAPH 1 ABOVE, GOI IS SEEKING TWO YEAR GRACE PERIOD FOLLOWED BY EIGHT YEAR REPAYMENT PERIOD.
NEWSOM

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY ASSISTANCE PROGRAMS
Control Number: n/a
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Sent Date: 07-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977JAKART00345
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770006-1227
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
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Legacy Key: link1977/newtext/t19770172/aaaaccls.tel
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Original Classification: CONFIDENTIAL
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TAGS: MASS, ID, US
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